

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Charter Township of Mount Morris	County Genesee
Audit Date March 31, 2004	Opinion Date July 27, 2004	Date Accountant Report Submitted To State: September 9, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Charter Township of Mount Morris Genesee County, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2004**

# Charter Township of Mount Morris

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## Contents

<b>Report Letter</b>	1-2
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### **Basic Financial Statements**

#### Fund Financial Statements:

##### Governmental Funds:

Balance Sheet	3
Statement of Revenue, Expenditures, and Changes in Fund Balances	4

##### Proprietary Funds:

Statement of Net Assets	5
Statement of Revenue, Expenses, and Changes in Net Assets	6
Statement of Cash Flows	7

Fiduciary Funds - Statement of Assets and Liabilities	8
---	---

Notes to Financial Statements	9-24
-------------------------------	------

### **Required Supplemental Information**

Budgetary Comparison Schedule - General Fund	25
--	----

Budgetary Comparison Schedule - Police and Fire Funds	26-27
---	-------

Note to Required Supplemental Information	28
---	----

### **Other Supplemental Information**

#### Nonmajor Governmental Funds:

Combining Balance Sheet	29-30
-------------------------	-------

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	31-32
--	-------

Fiduciary Funds - Combining Statement of Assets and Liabilities	33
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## Independent Auditor's Report

To the Township Council  
Charter Township of Mount Morris  
Genesee County, Michigan

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Charter Township of Mount Morris as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Mount Morris' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The accompanying financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's governmental activities and business-type activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Charter Township of Mount Morris as of March 31, 2004 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the Township Council  
Charter Township of Mount Morris  
Genesee County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Mount Morris' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements also do not include a management's discussion and analysis, which would present an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

As described in Note 12, the Township has implemented portions of a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2003.

*Plante & Moran, PLLC*

July 27, 2004

# Charter Township of Mount Morris

## Governmental Funds Balance Sheet March 31, 2004

	General Fund	Police Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 1,837,535	\$ 147,253	\$ (18,389)	\$ 83,213	\$ 2,049,612
Receivables - Net:					
Property taxes	769,436	-	-	-	769,436
Other governmental units	289,315	-	-	-	289,315
Other	-	6,380	-	74,808	81,188
Prepaid costs and other assets	170,581	31,252	309	30,654	232,796
Due from other funds (Note 7)	-	156,542	69,254	3,571	229,367
Inventories	9,435	-	-	-	9,435
Total assets	<u>\$ 3,076,302</u>	<u>\$ 341,427</u>	<u>\$ 51,174</u>	<u>\$ 192,246</u>	<u>\$ 3,661,149</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 8,579	\$ 12,608	\$ 18,422	\$ 501	\$ 40,110
Accrued and other liabilities	9,335	29,591	-	1,515	40,441
Due to other governmental units	170,243	-	-	-	170,243
Due to other funds (Note 7)	419,576	-	-	-	419,576
Deferred revenue (Note 6)	-	53,095	-	74,808	127,903
Total liabilities	607,733	95,294	18,422	76,824	798,273
<b>Fund Balances</b>					
Reserved for:					
Prepaid insurance policies	170,581	31,252	309	2,306	204,448
Debt service	-	-	-	19,495	19,495
Inventory	9,435	-	-	-	9,435
Unreserved, reported in:					
General Fund	2,288,553	-	-	-	2,288,553
Special Revenue Funds	-	214,881	32,443	93,621	340,945
Total fund balances	<u>2,468,569</u>	<u>246,133</u>	<u>32,752</u>	<u>115,422</u>	<u>2,862,876</u>
Total liabilities and fund balances	<u>\$ 3,076,302</u>	<u>\$ 341,427</u>	<u>\$ 51,174</u>	<u>\$ 192,246</u>	<u>\$ 3,661,149</u>

# Charter Township of Mount Morris

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2004

	General Fund	Police Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 895,153	\$ 1,209,535	\$ 523,461	\$ 841,394	\$ 3,469,543
Licenses and permits	30,025	-	-	81,760	111,785
Federal grants	186,688	86,999	20,453	-	294,140
State-shared revenues and state grants	2,415,047	150,411	-	-	2,565,458
Local sources	17,234	-	13,785	-	31,019
Special assessment revenue	215,269	-	-	1,893	217,162
Charges for services	331,560	-	-	-	331,560
Cable franchise fees	211,343	-	-	-	211,343
Fines and forfeitures	-	153,505	-	-	153,505
Interest and rentals	164,144	-	-	8,960	173,104
Other	51,671	12,275	5,008	56,064	125,018
<b>Total revenue</b>	<b>4,518,134</b>	<b>1,612,725</b>	<b>562,707</b>	<b>990,071</b>	<b>7,683,637</b>
<b>Transfers In - Excluding Debt Service</b>					
Fund closeout	-	1,800,218	278,080	50,000	2,128,298
<b>Total revenue and transfers in</b>	<b>4,518,134</b>	<b>3,412,943</b>	<b>840,787</b>	<b>1,040,071</b>	<b>9,811,935</b>
<b>Expenditures</b>					
Current:					
General government	1,622,448	-	-	-	1,622,448
Public safety	504,963	3,176,299	721,207	33,697	4,436,166
Public works	4,038	-	-	154,943	158,981
Health and welfare	169,668	-	-	-	169,668
Community and economic development	207,914	-	-	-	207,914
Debt service	87,025	126,056	120,549	44,349	377,979
Other expenditures	21,895	-	-	1,000	22,895
<b>Total expenditures</b>	<b>2,617,951</b>	<b>3,302,355</b>	<b>841,756</b>	<b>233,989</b>	<b>6,996,051</b>
<b>Transfers Out - Excluding Debt Service</b>					
Fund closeout	2,128,298	-	-	800,000	2,928,298
<b>Total expenditures and transfers out</b>	<b>4,746,249</b>	<b>3,302,355</b>	<b>841,756</b>	<b>1,033,989</b>	<b>9,924,349</b>
<b>Excess of Revenue and Transfers In Over (Under) Expenditures and Transfers Out</b>	<b>(228,115)</b>	<b>110,588</b>	<b>(969)</b>	<b>6,082</b>	<b>(112,414)</b>
<b>Other Financing Sources (Uses)</b>					
Transfer in from Debt Service Fund closeout	761,183	-	-	-	761,183
Transfer out from Debt Service Fund closeout	-	-	-	(761,183)	(761,183)
<b>Net Change in Fund Balances</b>	<b>533,068</b>	<b>110,588</b>	<b>(969)</b>	<b>(755,101)</b>	<b>(112,414)</b>
<b>Fund Balances - Beginning of year</b>	<b>1,935,501</b>	<b>135,545</b>	<b>33,721</b>	<b>870,523</b>	<b>2,975,290</b>
<b>Fund Balances - End of year</b>	<b>\$ 2,468,569</b>	<b>\$ 246,133</b>	<b>\$ 32,752</b>	<b>\$ 115,422</b>	<b>\$ 2,862,876</b>

# Charter Township of Mount Morris

## Proprietary Funds Statement of Net Assets March 31, 2004

	Water and Sewer	Refuse Collection	Total
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 6,054,115	\$ 515,489	\$ 6,569,604
Customer receivables	1,068,357	-	1,068,357
Due from other funds (Note 7)	45,693	144,516	190,209
Total current assets	7,168,165	660,005	7,828,170
Noncurrent assets:			
Capital assets (Note 5)	16,396,270	-	16,396,270
Restricted assets - Held at Genesee County (Note 4)	115,116	-	115,116
Total noncurrent assets	16,511,386	-	16,511,386
Total assets	23,679,551	660,005	24,339,556
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	441,171	-	441,171
Accrued and other liabilities	1,757	-	1,757
Current portion of long-term debt (Note 8)	529,724	-	529,724
Deferred revenue (Note 6)	-	526,086	526,086
Total current liabilities	972,652	526,086	1,498,738
Noncurrent liabilities - Long-term debt - Net of current portion (Note 8)	4,560,998	-	4,560,998
Total liabilities	5,533,650	526,086	6,059,736
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	11,305,548	-	11,305,548
Restricted for Genesee County capital projects	115,116	-	115,116
Unrestricted	6,725,237	133,919	6,859,156
Total net assets	<u>\$ 18,145,901</u>	<u>\$ 133,919</u>	<u>\$ 18,279,820</u>



# Charter Township of Mount Morris

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2004

	Water and Sewer	Refuse Collection	Total
<b>Operating Revenue</b>			
User charges	\$ 2,021,132	\$ 800,560	\$ 2,821,692
Interest and penalty charges	33,511	-	33,511
Other charges for services	111,360	-	111,360
	<hr/>	<hr/>	<hr/>
Total operating revenue	2,166,003	800,560	2,966,563
<b>Operating Expenses</b>			
Cost of water produced/purchased	980,296	-	980,296
Cost of sewage treatment	770,878	-	770,878
Refuse pickup contract	-	806,780	806,780
Operation and maintenance	99,348	-	99,348
Billing and administrative costs	288,615	-	288,615
Depreciation	320,666	-	320,666
	<hr/>	<hr/>	<hr/>
Total operating expenses	2,459,803	806,780	3,266,583
<b>Operating Loss</b>	(293,800)	(6,220)	(300,020)
<b>Nonoperating Revenue (Expense)</b>			
Investment income	59,078	1,915	60,993
Interest expense	(311,117)	-	(311,117)
	<hr/>	<hr/>	<hr/>
<b>Loss - Before contributions and transfers from other funds</b>	(545,839)	(4,305)	(550,144)
<b>Capital Contributions - Tap-in fees</b>	181,490	-	181,490
<b>Transfers from Other Funds (Note 7)</b>	800,000	-	800,000
	<hr/>	<hr/>	<hr/>
<b>Change in Net Assets</b>	435,651	(4,305)	431,346
<b>Net Assets - Beginning of year, as adjusted (Note 12)</b>	17,710,250	138,224	17,848,474
	<hr/>	<hr/>	<hr/>
<b>Net Assets - End of year</b>	<u>\$ 18,145,901</u>	<u>\$ 133,919</u>	<u>\$ 18,279,820</u>

# Charter Township of Mount Morris

## Proprietary Funds Statement of Cash Flows Year Ended March 31, 2004

	Water and Sewer	Refuse Collection	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 2,212,290	\$ 656,044	\$ 2,868,334
Payments to suppliers	(2,335,577)	(806,780)	(3,142,357)
Payments to employees	(288,855)	-	(288,855)
Net cash used in operating activities	(412,142)	(150,736)	(562,878)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Tap-in fees	181,490	-	181,490
Purchase of capital assets	(32,059)	-	(32,059)
Principal and interest paid on capital debt	(1,003,917)	-	(1,003,917)
Operating transfers in from other funds - Restricted for debt service	800,000	-	800,000
Net cash used in capital and related financing activities	(54,486)	-	(54,486)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments	59,078	1,915	60,993
Purchase of investments	(1,211,274)	-	(1,211,274)
Net cash provided by investing activities	(1,152,196)	1,915	(1,150,281)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,618,824)	(148,821)	(1,767,645)
<b>Cash and Cash Equivalents - Beginning of year</b>	6,576,781	675,741	7,252,522
<b>Cash and Cash Equivalents - End of year</b>	<u>\$ 4,957,957</u>	<u>\$ 526,920</u>	<u>\$ 5,484,877</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments (Note 3)	\$ 6,054,115	\$ 515,489	\$ 6,569,604
Restricted investments (Note 3)	115,116	-	115,116
Less amounts classified as investments (Note 3)	(1,211,274)	-	(1,211,274)
Total cash and cash equivalents	<u>\$ 4,957,957</u>	<u>\$ 515,489</u>	<u>\$ 5,473,446</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (293,800)	\$ (6,220)	\$ (300,020)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	320,666	-	320,666
Changes in assets and liabilities:			
Receivables	46,287	(144,516)	(98,229)
Accounts payable	(485,055)	-	(485,055)
Accrued and other liabilities	(240)	-	(240)
Net cash used in operating activities	<u>\$ (412,142)</u>	<u>\$ (150,736)</u>	<u>\$ (562,878)</u>

**Noncash Capital and Related Financing Activities** - There were no significant noncash investing, capital, or financing activities during the year ended March 31, 2004.

# Charter Township of Mount Morris

## **Fiduciary Funds** **Statement of Fiduciary Assets and Liabilities** **March 31, 2004**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 101,608
Receivables - Other	<u>12,219</u>
Total assets	<u><u>\$ 113,827</u></u>
<b>Liabilities</b>	
Due to other governmental units	\$ 64,802
Accrued and other liabilities	<u>49,025</u>
Total liabilities	<u><u>\$ 113,827</u></u>

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2004

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Charter Township of Mount Morris (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Mount Morris:

#### **Reporting Entity**

The Charter Township of Mount Morris is governed by an elected seven-member Board of Trustees. There are no component units that are required to be included in these financial statements.

#### **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments, federal grant reimbursements, and land contract receivables will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap-in fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Police Fund** - The Police Fund is where the Township accounts for the financial operations of the police department, including a special property tax millage, and federal and state grants that directly benefit and are solely designated for law enforcement activities.

**Fire Fund** - The Fire Fund is where the Township accounts for the financial operations of the fire department, including a special property tax millage, and federal grants that directly benefit and are solely designated for fire protection.

The Township reports the following major proprietary funds:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system. Funding is provided primarily through user charges.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Refuse Fund** - The Refuse Fund is used to account for the activities related to the Township's trash collection. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

#### **Property Tax Revenue**

Properties are assessed as of December 31 of each year. The related property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended March 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$364 million; the detail of the property tax levy is as follows:

<u>Purpose</u>	<u>Millage</u>	<u>Levy</u>
General operating	2.5400	\$ 924,000
Police	3.3423	1,216,000
Fire	1.4557	530,000
Debt	2.5000	<u>825,000</u>
Total property taxes		<u>\$ 3,495,000</u>

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General, Fire, Police, Building, Drug, Debt Service, Housing, Hughes 20, and Refuse Funds are generally allocated to each fund using a weighted average.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** - Genesee County acts on behalf of the Township to issue bonds to finance water and sewer lines. Restricted assets represent the monies held by the County that are to be spent on the Township's behalf for water and sewer line construction, or for repayment of the related bonds.

**Capital Assets** - Capital assets, which include property, plant, and equipment, are reported in the applicable Enterprise Funds. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets of the Enterprise Funds are depreciated using the straight-line method over the following useful lives:

Sanitary sewer system	75 years
Water utility system	60 years
Office equipment	5 to 7 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or the employee is terminated).

# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2004

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - Long-term debt and other long-term obligations are reported as liabilities in the proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data is not included in the Township's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**State Construction Code Act** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The activity related to construction code fees is recorded in a separate fund, the Building Permit Fund.



# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated four banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Charter Township of Mount Morris' deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

Balance Sheet Classification	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,049,612	\$ 5,358,330	\$ 101,608	\$ 7,509,550
Investments	-	1,211,274	-	1,211,274
Restricted assets	-	115,116	-	115,116
Total	<u>\$ 2,049,612</u>	<u>\$ 6,684,720</u>	<u>\$ 101,608</u>	<u>\$ 8,835,940</u>

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Charter Township of Mount Morris, Michigan is as follows:

GASB Statement No. 3 Classification	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 8,835,165
Petty cash or cash on hand	775
Total	<u>\$ 8,835,940</u>

#### Deposits

The bank balance of the Township's deposits is \$9,006,418, of which \$500,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Restricted Assets

Restricted assets at March 31, 2004 consist of cash and cash equivalents held at the County. These assets are restricted for construction of the Linden Road Water and Sewer extension.

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

	Balance April 1, 2003	Additions	Disposals and Adjustments	Balance March 31, 2004
<b>Governmental Activities</b>				
Land, buildings, and improvements	\$ 3,102,037	\$ 8,722	\$ -	\$ 3,110,759
Furniture and fixtures	1,200,649	-	-	1,200,649
Communication equipment	204,379	-	-	204,379
Machinery and vehicles	2,854,645	106,543	-	2,961,188
Total	<u>\$ 7,361,710</u>	<u>\$ 115,265</u>	<u>\$ -</u>	<u>\$ 7,476,975</u>

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 5 - Capital Assets (Continued)

The Township implemented portions of the new financial model, as required by the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB No. 34"), and related statements, as of July 1, 2002. A portion of GASB No. 34 not implemented by the Township is the government-wide financial statements which display the full accrual financial position and changes in financial position of its government and business-type activities. The above governmental activities capital assets would be presented within the government-wide financial statements. Since the Township did not present the government-wide financial statements, the governmental activities capital assets are not reported within the Township's financial statements as of March 31, 2004.

A summary of business-type fixed assets at March 31, 2004 was as follows:

	Balance April 1, 2003	Additions	Disposals and Adjustments	Balance March 31, 2004
<b>Business-type Activities</b>				
Sanitary sewer system	\$ 16,521,961	\$ -	\$ -	\$ 16,521,961
Water utility system	5,582,961	-	-	5,582,961
Construction in process	1,086,077	32,059	2	1,118,136
Office equipment	<u>6,166</u>	<u>-</u>	<u>-</u>	<u>6,166</u>
Subtotal	23,197,165	32,059	2	23,229,224
Accumulated depreciation:				
Sanitary sewer system	4,081,455	227,600	-	4,309,055
Water utility system	2,424,665	93,066	-	2,517,731
Office equipment	<u>6,168</u>	<u>-</u>	<u>-</u>	<u>6,168</u>
Subtotal	<u>6,512,288</u>	<u>320,666</u>	<u>-</u>	<u>6,832,954</u>
Net capital assets	<u>\$ 16,684,877</u>	<u>\$ (288,607)</u>	<u>\$ 2</u>	<u>\$ 16,396,270</u>

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 41,875	\$ -	\$ 41,875
Crime prevention grant	-	53,095	53,095
Land contract receivable	32,933	-	32,933
Total	<u>\$ 74,808</u>	<u>\$ 53,095</u>	<u>\$ 127,903</u>

In addition, the Refuse Collection Fund reports deferred revenue related to refuse fees collected in advance of the period to which the service relates.

### Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Police Fund	General Fund	\$ 156,542
Fire Fund	General Fund	69,254
Hughes 20 Debt Service Fund	General Fund	3,571
Water and Sewer Fund	General Fund	45,693
Refuse Collection Fund	General Fund	144,516
Total		<u>\$ 419,576</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Fire Fund	\$ 278,080
General Fund	Building Permits Fund	50,000
General Fund	Police Fund	1,800,218
General Debt Service Fund	General Fund	761,183
General Debt Service Fund	Water and Sewer Fund	800,000
Total		<u>\$ 3,689,481</u>

The transfers from the General Fund to the Fire Fund, Building Permits Fund, and Police Fund were to assist in paying salary expenses, vehicle debt, and other needed apportionments. The transfer from the General Debt Service Fund to the Water and Sewer Fund represents the movement of resources to be used to pay outstanding limited and unlimited tax full faith and credit municipal securities. The transfer from the General Debt Service Fund to the General Fund represents the closeout of the General Debt Service Fund.

### Note 8 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 8 - Long-term Debt (Continued)

The following debt is outstanding as of March 31, 2004:

#### Governmental Activities

##### General obligations:

Fire truck installment purchase agreement with interest at 5%, payable through 2006	\$ 140,000
Fire truck installment purchase agreement with interest at 7.7%, payable through 2008	350,706
Lease purchase agreement for three police cruisers, with interest at 5.95%, payable through 2006	7,226
Installment purchase agreement for one police cruiser, with interest at 6.44%, payable through 2005	3,792
Genesee County Road Commission assessments payable for road commission projects, with interest from 5% to 6.4%, payable through 2009	37,947
Township's share of Hughes 20 drainage district bonds, payable through 2009	14,173

##### Special assessment obligations:

Hughes 20 drainage district bonds, with no interest, payable through 2009 (2)	127,560
Subtotal of fixed obligations	681,404
Accumulated employee benefits (1)	241,309
Michigan Tax Tribunals (Note 13)	106,729
Total governmental activity debt	1,029,442

#### Enterprise Funds - Water and Sewer Fund Obligations

1999 Genesee County sanitary sewage contract, with interest from 4.95% to 5.7%, payable through 2019 (3)	3,350,000
1996 Genesee County sewage disposal system bonds, with interest from 5% to 7%, payable through 2013 (3)	1,740,722
Total Enterprise Fund debt	5,090,722
Total business-type and governmental activities	\$ 6,120,164

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 8 - Long-term Debt (Continued)

- (1) Accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.
- (2) The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of improvements. At March 31, 2004, the Township has approximately \$19,500 set aside in the Hughes 20 Special Assessment Debt Service Fund for repayment of these bonds. In addition, there is approximately \$41,875 of special assessments receivable in the future; the amount of receivables delinquent at March 31, 2004 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.
- (3) The Township has pledged its full faith and credit as collateral for the water and sewer county contract obligations.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>				
General obligation debt	\$ 322,244	\$ 231,600	\$ 553,844	\$ 166,687
Special assessment debt	153,072	(25,512)	127,560	25,512
Accumulated employee benefits	242,622	(1,313)	241,309	97,721
Michigan Tax Tribunals	106,729	-	106,729	-
Total governmental activities	824,667	204,775	1,029,442	289,920
<b>Business-type Activities - County contract obligations</b>	<u>5,783,522</u>	<u>(692,800)</u>	<u>5,090,722</u>	<u>529,724</u>
Total business-type and governmental activities	<u>\$ 6,608,189</u>	<u>\$ (488,025)</u>	<u>\$ 6,120,164</u>	<u>\$ 819,644</u>

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 8 - Long-term Debt (Continued)

The Township implemented portions of the new financial model, as required by the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB No. 34"), and related statements, as of July 1, 2002. A portion of GASB No. 34 not implemented by the Township is the government-wide financial statements, which display the full accrual financial position and changes in financial position of its government and business-type activities. The above governmental activities long-term obligations would be presented within the government-wide financial statements. Since the Township did not present the government-wide financial statements, the governmental activities long-term obligations are not reported within the Township's financial statements as of March 31, 2004.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 192,199	\$ 25,465	\$ 217,664	\$ 529,724	\$ 233,593	\$ 763,317
2006	183,306	17,215	200,521	528,666	252,611	781,277
2007	115,532	10,853	126,385	553,666	222,903	776,569
2008	114,416	6,178	120,594	278,666	184,613	463,279
2009	75,951	1,586	77,537	300,000	170,085	470,085
2010-2014	-	-	-	1,525,000	599,300	2,124,300
2015-2019	-	-	-	1,375,000	203,645	1,578,645
Total	<u>\$ 681,404</u>	<u>\$ 61,297</u>	<u>\$ 742,701</u>	<u>\$ 5,090,722</u>	<u>\$ 1,866,750</u>	<u>\$ 6,957,472</u>

### Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefit claims, and participates in the Michigan Municipal League risk pool program for claims relating to workers' compensation, and in the Michigan Townships Participating Plan for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.



# Charter Township of Mount Morris

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## Notes to Financial Statements March 31, 2004

### **Note 9 - Risk Management (Continued)**

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

### **Note 10 - Defined Benefit Pension Plan**

#### **Plan Description**

The Township participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

#### **Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires no contribution from the employees.

#### **Annual Pension Cost**

For the year ended March 31, 2004, the Township's annual pension cost of \$411,400 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002 and 2001, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, (c) additional projected salary increases ranging from 0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8 percent), and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level of percentage of payroll over a period of 30 years.

# Charter Township of Mount Morris

## Notes to Financial Statements March 31, 2004

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information

	Fiscal Year Ended March 31		
	2002	2003	2004
Annual pension costs (APC)	\$ 335,329	\$ 363,195	\$ 411,400
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Valuation as of December 31			
	2000	2001	2002
Actuarial value of assets	\$ 9,267,968	\$ 9,903,168	\$ 10,111,686
Actuarial accrued liability (AAL)	\$ 10,845,165	\$ 11,969,699	\$ 13,196,788
Unfunded AAL (UAAL)	\$ 1,577,197	\$ 2,066,531	\$ 3,085,102
Funded ratio	85%	83%	77%
Covered payroll	\$ 2,745,874	\$ 2,677,951	\$ 2,757,073
UAAL as a percent of covered payroll	57%	77%	112%

### Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The Township pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Township's group rates. Currently, 25 retirees are eligible for postemployment health benefits. For the fiscal year ended March 31, 2004, the Township made payments for postemployment health benefit premiums of \$169,700. The Township obtains health care coverage through private insurers.

### Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township has implemented portions of GASB No. 34. As part of this implementation, the Township's Refuse Collection Fund is now reported as an Enterprise Fund. As a result of this economic resources management focus, the beginning net assets of the Refuse Collection Fund has been adjusted as of March 31, 2003 from \$675,741 to \$138,244 in order to properly defer the portion of refuse collection user charges that have been received but not yet earned.

# **Charter Township of Mount Morris**

## **Notes to Financial Statements March 31, 2004**

### **Note 12 - Accounting and Reporting Change (Continued)**

However, the Township did not present government-wide financial statements to display the financial position and changes in financial position using full accrual accounting for all of the Township's activities. These statements would present the Township's governmental activities and business-type activities. In addition, The Township did not include a management's discussion and analysis, which would present an analysis of the financial performance for the year.

Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the City's governmental activities and business-type activities are not reasonably determinable. The Governmental Accounting Standards Board has determined that the management's discussion and analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Because of the effects of the matter discussed in the preceding paragraphs, the Township's financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Charter Township of Mount Morris as of March 31, 2004 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

### **Note 13 - Personal Property Tax Multipliers**

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds of approximately \$106,729 in the governmental funds. Of this refund, \$29,229 would come from the General Fund, \$28,702 from the Police Fund, \$5,742 from the Fire Fund, and \$43,056 from the General Debt Service Fund or Water and Sewer Fund. Appeals are still being undertaken by taxing and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been disclosed in the long-term debt footnote as a long-term liability within the governmental activities.

## **Required Supplemental Information**

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# Charter Township of Mount Morris

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 905,000	\$ 905,000	\$ 895,153	\$ (9,847)
Licenses and permits	177,600	177,600	30,025	(147,575)
Federal grants	227,297	227,297	186,688	(40,609)
State-shared revenues and grants	2,375,000	2,375,000	2,415,047	40,047
Local sources	56,000	56,000	17,234	(38,766)
Special assessment revenue	240,000	240,000	215,269	(24,731)
Charges for services	290,000	290,000	331,560	41,560
Cable franchise fees	-	-	211,343	211,343
Interest and rentals	60,000	60,000	164,144	104,144
Other	112,200	112,200	51,671	(60,529)
Transfer from other funds	-	-	761,183	761,183
Total revenues	4,443,097	4,443,097	5,279,317	836,220
<b>Expenditures</b>				
Current:				
General government	1,937,215	1,617,415	1,622,448	(5,033)
Public safety	497,000	504,261	504,963	(702)
Public works	-	4,038	4,038	-
Health and welfare	193,000	169,668	169,668	-
Community and economic development	227,297	256,208	207,914	48,294
Debt service	100,000	87,025	87,025	-
Other expenditures	64,400	20,783	21,895	(1,112)
Transfers to other funds	2,128,000	2,128,298	2,128,298	-
Total expenditures	5,146,912	4,787,696	4,746,249	41,447
<b>Surplus (Shortfall)</b>	<b>\$ (703,815)</b>	<b>\$ (344,599)</b>	<b>\$ 533,068</b>	<b>\$ 877,667</b>

# Charter Township of Mount Morris

## Required Supplemental Information Budgetary Comparison Schedule Police Fund Year Ended March 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 1,205,000	\$ 1,205,000	\$ 1,209,535	\$ 4,535
Federal grants	-	-	86,999	86,999
State grants	166,000	121,000	150,411	29,411
Fines and forfeitures	73,000	73,000	153,505	80,505
Other	42,000	42,000	12,275	(29,725)
Transfer from other funds	<u>1,850,000</u>	<u>1,800,218</u>	<u>1,800,218</u>	<u>-</u>
Total revenues	3,336,000	3,241,218	3,412,943	171,725
<b>Expenditures</b>				
Current - Public safety	3,348,500	3,204,079	3,176,299	27,780
Debt service	<u>-</u>	<u>126,056</u>	<u>126,056</u>	<u>-</u>
Total expenditures	<u>3,348,500</u>	<u>3,330,135</u>	<u>3,302,355</u>	<u>27,780</u>
<b>Surplus (Shortfall)</b>	<u><u>\$ (12,500)</u></u>	<u><u>\$ (88,917)</u></u>	<u><u>\$ 110,588</u></u>	<u><u>\$ 199,505</u></u>

# Charter Township of Mount Morris

## Required Supplemental Information Budgetary Comparison Schedule Fire Fund Year Ended March 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenues</b>				
Property taxes	\$ 526,000	\$ 526,000	\$ 523,461	\$ (2,539)
Federal grants	10,000	10,000	20,453	10,453
Local sources	21,000	21,000	13,785	(7,215)
Fines and forfeitures	10,000	10,000	-	(10,000)
Other	12,000	12,000	5,008	(6,992)
Transfer from other funds	228,000	278,080	278,080	-
Total revenues	807,000	857,080	840,787	(16,293)
<b>Expenditures</b>				
Current - Public safety	728,250	719,863	721,207	(1,344)
Debt service	78,750	120,550	120,549	1
Total expenditures	807,000	840,413	841,756	(1,343)
<b>Surplus (Shortfall)</b>	<u>\$ -</u>	<u>\$ 16,667</u>	<u>\$ (969)</u>	<u>\$ (17,636)</u>

# Charter Township of Mount Morris

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## **Note to Required Supplemental Information March 31, 2004**

### **Note - Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The annual budget is prepared by the Township supervisor and adopted by the Township Board. During the year, the budget was amended in a legally permissible manner.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget process is initiated in December. At that time, departments are given prior and current year budget information to review. The budget form includes areas for potential budget suggestions. Once each department completes the forms, they are resubmitted to the Township supervisor to review with each department head. The budget is submitted to the Township Board in February by the Township supervisor. After a public hearing, the final budget is adopted by a Township Board resolution no later than March 31.
2. The legislative budget is adopted by department and fund on an activity basis. Line item detail is provided as a general guideline. Throughout the year, the Board receives requests to amend the activity budget. All amendments must be approved by a vote of the Township Board.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Mount Morris did not incur expenditures that were significantly in excess of the amounts budgeted.





## **Other Supplemental Information**

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# Charter Township of Mount Morris

	Special Revenue Funds		
	Housing Commission	Building Permits	Drug Law Enforcement
<b>Assets</b>			
Cash and investments	\$ 41,241	\$ 33,935	\$ 20,461
Receivables - Net	32,933	-	-
Prepaid costs and other assets	1,050	1,256	-
Due from other funds	-	-	-
Total assets	<u><u>\$ 75,224</u></u>	<u><u>\$ 35,191</u></u>	<u><u>\$ 20,461</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 501	\$ -
Accrued and other liabilities	-	1,515	-
Deferred revenue	32,933	-	-
Total liabilities	32,933	2,016	-
<b>Fund Balances</b>			
Reserved for prepaid insurance policies	1,050	1,256	-
Reserved for debt service	-	-	-
Unreserved	41,241	31,919	20,461
Total fund balances	<u>42,291</u>	<u>33,175</u>	<u>20,461</u>
Total liabilities and fund balances	<u><u>\$ 75,224</u></u>	<u><u>\$ 35,191</u></u>	<u><u>\$ 20,461</u></u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
March 31, 2004**

Debt Service Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
Hughes 20 Debt Service	Building Fund	
\$ (12,424)	\$ -	\$ 83,213
41,875	-	74,808
28,348	-	30,654
3,571	-	3,571
<b>\$ 61,370</b>	<b>\$ -</b>	<b>\$ 192,246</b>
\$ -	\$ -	\$ 501
-	-	1,515
41,875	-	74,808
41,875	-	76,824
-	-	2,306
19,495	-	19,495
-	-	93,621
19,495	-	115,422
<b>\$ 61,370</b>	<b>\$ -</b>	<b>\$ 192,246</b>

# Charter Township of Mount Morris

	Special Revenue Funds		
	Housing Commission	Building Permits	Drug Law Enforcement
<b>Revenue</b>			
Property taxes	\$ -	\$ -	\$ -
Interest income	2,859	-	-
Licenses and permits	-	81,760	-
Special assessments	-	-	-
Other	23,111	25	32,928
Total revenue	25,970	81,785	32,928
<b>Expenditures</b>			
Current:			
Public safety department	-	-	33,697
Public works department	20,811	134,132	-
Other	-	-	-
Debt service	-	-	-
Total expenditures	20,811	134,132	33,697
<b>Excess of Revenue Over (Under)</b>			
<b>Expenditures</b>	5,159	(52,347)	(769)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	50,000	-
Transfers out	-	-	-
Total other financing sources (uses)	-	50,000	-
<b>Net Change in Fund Balances</b>	5,159	(2,347)	(769)
<b>Fund Balances - Beginning of year</b>	37,132	35,522	21,230
<b>Fund Balances - End of year</b>	<b>\$ 42,291</b>	<b>\$ 33,175</b>	<b>\$ 20,461</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended March 31, 2004**

Debt Service Funds		Capital Projects Fund	
Hughes 20 Debt Service	General Debt Service	Building Fund	Total Nonmajor Governmental Funds
\$ 13,348	\$ 828,046	\$ -	\$ 841,394
86	6,015	-	8,960
-	-	-	81,760
1,893	-	-	1,893
-	-	-	56,064
15,327	834,061	-	990,071
-	-	-	33,697
-	-	-	154,943
-	1,000	-	1,000
44,349	-	-	44,349
44,349	1,000	-	233,989
(29,022)	833,061	-	756,082
-	-	-	50,000
-	(1,561,183)	-	(1,561,183)
-	(1,561,183)	-	(1,511,183)
(29,022)	(728,122)	-	(755,101)
48,517	728,122	-	870,523
<b>\$ 19,495</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 115,422</b>

# Charter Township of Mount Morris

## Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds March 31, 2004

	Tax Collection Fund	Trust and Agency Fund	Totals
<b>Assets</b>			
Cash and investments	\$ 7,681	\$ 93,927	\$ 101,608
Receivables	<u>12,219</u>	<u>-</u>	<u>12,219</u>
Total assets	<u><b>\$ 19,900</b></u>	<u><b>\$ 93,927</b></u>	<u><b>\$ 113,827</b></u>
<b>Liabilities</b>			
Accrued and other liabilities	\$ -	\$ 49,025	\$ 49,025
Due to other governmental units	<u>19,900</u>	<u>44,902</u>	<u>64,802</u>
Total liabilities	<u><b>\$ 19,900</b></u>	<u><b>\$ 93,927</b></u>	<u><b>\$ 113,827</b></u>

July 27, 2004

Township Board  
Charter Township of Mount Morris  
5447 Bicentennial Drive  
Mount Morris, Michigan, 48458

Dear Board Members:

We recently completed our audit of the general purpose financial statements of the Charter Township of Mount Morris for the year ended March 31, 2004. As a result of our audit, we have the following comments and recommendations for your review and consideration.

#### **NEW FINANCIAL REPORTING MODEL**

During the current year, a new accounting pronouncement became effective - Governmental Accounting Standards Board Statement Number 34 (GASB 34). Due to the Township concentrating its efforts on improving the conditions of the accounting records and controls and having to accommodate key staff turnover for the year ending March 31, 2004, the Township elected to implement only those portions of GASB 34 that were required by the State of Michigan, and will attempt to fully implement the new pronouncement for the year ending March 31, 2005.

#### **FINANCIAL RESULTS**

For the year ended March 31, 2004, the Township's General Fund experienced expenditures in excess of revenues (before the transfer in of the debt service fund residual assets) of \$226,566. As you are aware, this is the result of continued reductions in state shared revenue and several other revenue sources, as well as significant increases in health care costs. The Township has worked to minimize capital spending and attempted to control operating costs in order to weather the economic downturn over the past few years.

As discussed last year, we recommend that the Township eliminate its 2.50 mill debt levy at December 1, 2004 and replace it with an increase in the general operating millage. While this reduces the millage to those property owners not included in the Beecher Metropolitan District, it should significantly improve the General Fund's financial picture, since this increased millage would go into the General Fund.

We would strongly encourage the Township to consider taking its financial planning one step further (from both an operational and capital perspective) over a multi-year period. The Township should continually review its long range financial plans through the use of a five year plan model in order to ensure continued financial viability over the long-run in this uncertain municipal environment.



## **CONDITION OF ACCOUNTING RECORDS AND CONTROLS**

We would like to commend the Township for improving many of its accounting controls and procedures during the year ending March 31, 2004. Improvements were noted in the Water and Sewer Fund reconciliation process, payroll documentation and authorization, credit card usage, interfund reconciliation process, and implementation of an ACH policy. While the Township continues to work towards achieving a stronger internal control structure, the bank reconciliation process and the cash disbursement procedures must again be reported as a reportable condition. Reportable conditions are significant deficiencies in the design or operations of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with management's assertions inherent in the financial statements. We believe that if the Township continues its plan to increase internal controls, these reported deficiencies could be removed within the next fiscal year.

### **Bank Reconciliations**

As we addressed in the prior year, the process of reconciling the Township's cash and investment accounts continues to be an area of concern. While the Township is making progress in this area, there are still improvements to be made within the reconciliation process. The process of reconciling the bank statements to the Treasurer's records continues to operate effectively; however, there continues to be a monthly unreconciled difference in reconciling the pool account to the general ledger. In order to maintain proper control over the cash accounts, the monthly bank reconciliation process should include identifying and following up on differences between the bank reconciliation balance and the general ledger balance. Any adjustments identified should be posted on a monthly basis.

We further recommend that the reconciliations be initialed and dated after completion, to document the timeliness, as well as document ownership or responsibility for the work. The bank and investment reconciliations should also be reviewed by someone independent of the bank reconciliation process.

### **Cash Disbursements**

As mentioned in the previous year, we continue to encourage the Township to improve controls over cash disbursements. We continued to note neither consistent indication on the invoices of administrative approval for payment nor indication of whether the invoice had been processed for payment. While we do understand that the Township board approves all payments, strong internal controls require that personnel most familiar with the service provided review and approve such invoices for payments. The individual responsible for approving disbursements, typically a department head or other authorized individual with knowledge of the Township's activities, should document approval for payment on the invoices prior to the disbursement occurring. The individual responsible for making the payments should not process invoices that have not been administratively approved for payment.

In addition, as a result of not canceling the invoice when paid, the invoice could inadvertently be processed and paid twice. We suggest that the Township write or stamp "paid" on each invoice after payment to, in effect, cancel the invoices. In addition, as a reference, the Township may wish to include other information such as check number and date paid as part of the "paid" stamp.

## CONDITION OF ACCOUNTING RECORDS AND CONTROLS (Continued)

### Water and Sewer Customer Receivable Reconciliation

In the previous year, we suggested that the Township reconcile the water and sewer customer accounts receivable and related revenue postings to the Township general ledger on a monthly basis. We would like to commend the Township on performing this procedure on a quarterly basis during the current audit year. We continue to encourage the Township to perform these procedures more often during the next fiscal year.

### Internal Control Considerations

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit.

The Board should be pleased to note that the extra inquiries and testing that was required did not reveal any material weaknesses not already addressed by the Township. However, during the additional procedures, we did note the following items that might be worth giving further consideration to:

- The Township's manual journal entries put into the system do not include a journal entry description of the reason for the journal entry. We suggest that for each manual journal entry entered into the system an appropriate description accompanies that entry. This will help to avoid having to go to manual source documentation to support the entry.
- During our review of the accounts payable system, it was noted that the vendor listing is not reviewed and there are not specific individuals designated to enter new vendors. The Township should consider reviewing and designating an individual to authorize new vendors. These enhanced procedures will serve to ensure every vendor has only one vendor number and each vendor is an authorized vendor.
- The Township should consider separating duties between the individual that collects cash in the Treasurer's office from the individual that balances the drawer at the end of each day. Since there are two cashiers, perhaps each could use a separate drawer, and then each one could perform the balancing procedure for the other person's cash drawer. This separation of duty will serve to enhance internal controls over cash receipts system.

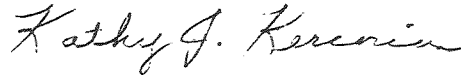
We would like to thank the Board for the opportunity to serve as auditors for the Township. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Joseph C. Heffernan



Kathryn J. Kercorian